General Session*:

Pension Reform

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* These preliminary comments of CalPERS staff are based on its current understanding of AB 340 and therefore these comments are not intended to address all issues that could arise in this recently enacted law.

What is AB 340?

- Relevant dates
  - August 31, 2012 – adopted by Legislature
  - September 12, 2012 – signed by Governor
  - January 1, 2013 – takes effect
- Pension reform consists of California Public Employees’ Pension Reform Act (“PEPRA”) and amendments to PERL, 1937 Act, TRL, LRL and JRL
- PEPRA applies to all state and local public retirement systems and their participating employers

Pertinent definitions

- New member
  - An individual who has never been a member of any public retirement system prior to January 1, 2013
  - An individual who moved between public retirement and was not subject to reciprocity (i.e., the individual had more than a six month break in service or no reciprocal agreement with CalPERS)
  - An individual who moved between public employers within a public retirement system after more than a six month break in service

Reduced benefit formulas and increased retirement ages

- Applies to new members
- Miscellaneous Formula – 2% at age 62
- Safety Formulas
  - Basic – 2% at age 57
  - Option 1 – 2.5% at age 57
  - Option 2 – 2.7% at age 57

Mapping for new formulas

Miscellaneous plans

Current formula	Formula for new members
1.5% at age 65	1.5% at age 65
2% at age 60	2% at age 62
2% at age 55	2% at age 62
2.5% at age 55	2% at age 62
2.7% at age 55	2% at age 62
3% at age 60	2% at age 62

Mapping for new formulas

Safety plans

Current formula	Formula for new members
Half at age 55	2% at age 57
2% at age 55	2% at age 57
2% at age 50	2.7% at age 57
3% at age 55	2.7% at age 57
3% at age 50	2.7% at age 57

New formula implementation

- Relationship between CalPERS and employers is governed by law
- Contracts will not need to be updated by January 1, 2013 to implement the new formulas or three year final compensation
- Existing optional benefit provisions and exclusions will be carried forward for new members
- CalPERS will be updating agency contracts over the next two years or when an employer amends their contract

Salary cap on pensionable compensation

- Caps compensation that counts towards pension benefits for new members to:
  - $113,700 for those with Social Security
  - $136,440 for those without Social Security
- Subject to annual adjustment
- Public employer may not offer a defined benefit on compensation in excess of the foregoing limits
- Public employer may provide a defined contribution plan contribution based on compensation in excess of the compensation limits

Anti-spiking provisions

- New member final compensation based on retiree’s highest three year average pensionable compensation
- Current members subject to three year average cannot have their employer amend its contract to provide a single year highest compensation period after 2012

Anti-spiking provisions (continued)

- New member's pensionable compensation limited to:
  - Normal monthly rate of pay or base pay
  - Paid in cash to similarly situated members of the same group
  - Pursuant to a publicly available pay schedule
  - Excludes bonuses, overtime, pay for additional services outside of normal working hours and other types of pay
  - Retirement boards have the authority to exclude other forms of compensation inconsistent with the statutory definition

What is normal cost?

- It’s the cost to provide the current years benefit
- What is the normal cost rate?
  - Normal cost expressed as a percentage of payroll
  - The combined employer and member normal cost contribution
  - Not the contribution on the unfunded liability/surplus

Member contribution rate

State members

- All new and current members will continue to pay what is currently defined by statute

Member contribution rate

New member – Public Agency, School, and Judicial

- Initial contribution is the greater of
  - 50 percent of normal cost rate of the defined benefit plan; or
  - Current contribution rate of similarly situated employees
- Prohibits employer paid member contributions (EPMC)
- Unless MOU impaired

Member contribution rate

Current member – Public Agency and School Districts

- Encourages 50/50 sharing of normal cost and elimination of EPMC but doesn't require it
- After 1/1/2018, employer may require that current members pay 50 percent of normal cost subject to certain limitations
  - Employee contributions are capped at
    - 8 percent for local miscellaneous and school members
    - 12 percent for local police officers, firefighters, and county peace officers
    - 11 percent for all other local safety members

Member contribution rate

Current member – Public Agency and School Districts (continued)

- The PERL allows a public agency to reduce or eliminate EPMC
- At any time employer and employee can negotiate a cost sharing arrangement under Section 20516
  - By benefit tier
  - By bargaining unit

Total normal cost example miscellaneous plans

Benefit formula	Low	Median	High	Employee contribution
2% at age 60	13.9%	13.9%	15.9%	7%
2% at age 55	15.6%	16.1%	18.8%	7%
2.5% at age 55	17.8%	18.3%	20.4%	8%
2.7% at age 55	19.0%	19.7%	22.5%	8%
3% at age 60	19.5%	20.2%	22.4%	8%
2% at age 62	—	12%	—	Varies

Total normal cost example safety plans

Benefit formula	Low	Median	High	Employee contribution
2% at age 55	20.7%	20.7%	22.6%	7%
2% at age 50	24.3%	24.3%	28.5%	9%
3% at age 55	26.4%	27.3%	31.0%	9%
3% at age 50	28.7%	29.6%	37.3%	9%
2% at age 57	—	17%	—	Varies
2.7% at age 57	—	21%	—	Varies

Limit post-retirement public employment

- Restrictions apply to employment with employers within the same retirement system
- Similar to provisions already in the PERL
  - Limited circumstances for appointment
  - 960-hour limit for all employers within the same system
  - Hourly pay rate
  - Rate of pay tied to employees performing similar duties

Limit post-retirement public employment (continued)

- New or expanded limitations
  - 180-day waiting period unless
    - Employer certification and/or governing body approval,
    - Retiree is a safety employee, or
    - Participating in the Faculty Early Retirement Program
  - If retiree received a retirement incentive, the waiting period is compulsory, no exceptions
  - Includes independent contractors
  - The bona fide separation rules still apply

Other provisions

- Prohibit the purchase of air-time
  - Must have five years of service and CalPERS must receive application prior to 1/1/2013
- Prohibit retroactive benefit increases
  - Excludes COLA's
  - Includes optional benefit provisions that are service based
- Prohibit pension holidays
  - Requires the combined employer and employee contributions to cover the annual normal cost

Other provisions (continued)

- Improved industrial disability retirement
  - Only applies to safety employees that retiree after 1/1/2013
  - Sunsets on 1/1/2018
- Equal health benefit vesting

Other provisions (continued)

- Felony benefit forfeiture
- Contracting agency liability for excessive compensation
- Final average compensation for local elected members